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HELPING OLDER AMERICANS TO AVOID OVERPAYMENT OF INCOME TAXES

(Deductions You Are Entitled
To Use for 1986)

AN INFORMATION PAPER

PREPARED BY THE STAFF OF THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

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PREFACE

Older Americans need to use their tax deductions, exemptions, and tax credits. The Senate Special Committee on Aging checked with the Internal Revenue Service, and has prepared this information paper for taxable year 1986.

Check it out and see if it helps.

JOHN MELCHER,
Chairman.
JOHN HEINZ,
Ranking Minority Member.

IRS ASSISTANCE IS AVAILABLE TO HELP YOU

Tele-Tax: The Internal Revenue Service has a telephone service called Tele-Tax. This service provides recorded tax information tapes on about 150 topics covering such areas as filing requirements, dependents, itemized deductions, and tax credits. Tele-Tax is available 24 hours a day, 7 days a week, to taxpayers who use pushbutton telephones. Rotary (dial) service is available Monday through Friday during regular office hours. A listing of tapes and instructions on how to use Tele-Tax are near the end of the Form 1040 or Form 1040A and Form 1040EZ instructions.

Publications to assist you: The IRS prepares many free publications that will help answer your tax questions. In addition to the general Publication 17, "Your Federal Income Tax," publications are available on specific topics, such as:

"Tax Information for Older Americans" (Publication 554).

"Highlights of 1986 Tax Changes" (Publication 553).

"Credit for the Elderly or for the Permanently and Totally Disabled" (Publication 524).

"Tax Withholding and Estimated Tax" (Publication 505).

"Guide to Free Tax Services" (Publication 910).

"Social Security Benefits and Equivalent Railroad Retirement Benefits" (Publication 915).

Single copies of the above publications can be ordered by mail, using the order form in your tax package.

Other special IRS programs offering free assistance: Through the tax counseling for the elderly (TCE) program, IRS-trained volunteers assist individuals age 60 and over with their tax returns at neighborhood loca-

tions in many areas. In addition, certain volunteer income tax assistance (VITA) aides have been trained to help older Americans with their tax returns. (VITA assistance is also available to low-income, handicapped, and non-English-speaking individuals.) Your local IRS office will be able to tell you where and when you can find TCE or VITA assistance in your area.

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WHO MUST FILE A FEDERAL TAX RETURN IS GENERALLY DETERMINED BY YOUR INCOME AND YOUR FILING STATUS

You must file a return for 1986, even though you owe no tax if:	*And your income was at least:*
1. You were single, divorced, or married with a dependent child and living apart from your spouse during the last 6 months of 1986 and were :	
Under age 65	$3,560
Age 65 or over	$4,640
2. You were married filing a joint return and were living with your spouse at the end of 1986 or on the date your spouse died and:	
Both were under age 65	$5,830
One was age 65 or over	$6,910
Both were age 65 or over	$7,990
3. You were married filing a separate return or married but not living with your spouse at the end of 1986 or on the date your spouse died	$1,080
4. You were a qualifying widow or widower with a dependent child and:	
Under age 65	$4,750
Age 65 or over	$5,830
5. You received *any* advance earned income credit (EIC) payments from your employer(s) during 1986.	
6. You were self-employed and your net earnings from this work were at least $400, then you must file a return to pay self-employment tax. You are self-employed if you carry on a trade or business as a sole proprietor, a member of a partnership, or an independent contractor. This includes certain part-time work that you do at home or in addition to your regular job. This rule applies regardless of your age; whether or not you are receiving Social Security benefits; and even if you are otherwise not required to file a Federal tax return.	

You should file a return for 1986, even though you owe no tax if:

1. Income tax was withheld from your pay, so that you can get a refund of the tax withheld, even if you are not required to file a return.
2. You qualify for the earned income credit.

FORM 1040EZ

There is a simplified tax return form, called Form 1040EZ. You may only use this form if:

(1) Your filing status is single;

(2) You do not claim an extra exemption for age or blindness;

(3) You claim no dependents;

(4) Your taxable income is less than $50,000;

(5) Your income is all from wages, salaries, tips, and interest of $400 or less;

(6) You do not itemize your deductions;

(7) Your only deduction is the cash charitable contributions deduction; and

(8) You do not claim any tax credits.

You should use this form if you meet these qualifications, because it is easier to fill out than the other forms. If you cannot use Form 1040EZ, you should use either Form 1040 or Form 1040A.

REMINDER FOR SOCIAL SECURITY BENEFICIARIES

Up to one-half of the Social Security benefits received by *certain* beneficiaries may be subject to Federal income tax. Chances are good that you won't have to pay any tax on your benefits. The IRS estimates that only a small percentage of the beneficiaries will have to do so. Couples who file jointly—where one spouse is retired and the other works—are the most likely to owe additional taxes on benefits.

You should receive a form from the Social Security Administration marked FORM SSA-1099—SOCIAL SECURITY BENEFIT STATEMENT if you received benefits in 1986. These forms will note how much of that amount was deducted by Social Security to cover Medicare premiums, any repayments of prior overpayments by SSA, etc. IRS has a worksheet for calculating the

amount of benefits subject to tax in the FORM 1040 instruction booklet.

TAX WITHHOLDING AND ESTIMATED TAX PAYMENTS

Federal income tax is withheld from the taxable part of most pension and annuity payments. This includes distributions from an individual retirement arrangement, from a life insurance company under an endowment, annuity, or life insurance contract, or from a pension, annuity, profit-sharing plan, stock bonus plan, or any similar plan that defers the time you receive compensation. The amount withheld depends on whether you receive payments spread out over more than 1 year ("periodic payments") or whether you receive all of the payments within 1 year ("nonperiodic payments").

Withholding from periodic payments of a pension or annuity is figured in the same way as withholding from salaries and wages. To tell the company that pays your pension or annuity how much you want withheld, fill out Form W–4P, or a similar form provided by the company, showing your marital status and the number of withholding allowances to which you are entitled. If you do not give the payer a Form W–4P, tax will be withheld as if you are married claiming three withholding allowances. You may also use this form to tell the payer you do not want any tax withheld. If you receive a nonperiodic distribution, the payer can tell you the amount that will be withheld.

Tax will be withheld at the rate of 10 percent on any nonperiodic payments you receive, unless they are part of a "qualified total distribution." A qualified total distribution is payment within 1 year of your entire interest in a pension, profit-sharing, stock bonus, or qualified annuity plan.

Because the withholding rates for nonperiodic payments do not depend on withholding allowances or whether you are married or single, Form W–4P is not used. The withholding rates are fixed; you cannot increase or decrease the amount withheld. However, you can use Form W–4P to choose to have no tax withheld from nonperiodic payments or to revoke a choice to have no tax withheld.

Remember, if no tax or not enough tax is withheld from your income, you may need to pay estimated tax. Your estimated tax generally is the total of your expected withholding and credits. Form 1040-ES provides a worksheet for making this computation.

If your estimated tax for 1987 is $500 or more and you expect your withholding to be less than: (1) 90 percent of the tax shown on your 1987 return, or (2) 100 percent of the tax shown on your 1986 tax return (assuming the return covered all 12 months), you generally must pay an estimated tax and use Form 1040-ES. Installment payments are due April 15, June 15, September 15, and January 15.

For more information, see Publication 505, "Tax Withholding and Estimated Tax."

TAX TABLE

The tax table has been developed to make it easier for you to find your tax if your taxable income (line 19, Form 1040A; line 7, Form 1040EZ; line 37, Form 1040) is less than $50,000. You *must* use this table *unless* you compute your tax using Schedule G (income averaging), or your taxable income is $50,000 or more. In those cases, you must use the tax rate schedules. The tax table is designed to be used by individuals (other than Schedule G filers) whether or not they itemize their deductions. This is possible because of an amount built into the tax table known as the "zero bracket amount." This flat amount based on your filing status provides a minimum deduction for all individuals. If you are married filing jointly or a qualifying widow or widower, your zero bracket amount is $3,670. If you are single or a head of household, your zero bracket amount is $2,480. If you are married filing separately, it is $1,835.

DEDUCTION FOR A MARRIED COUPLE WHEN BOTH WORK

Two-earner married couples filing jointly are allowed a deduction based on the qualified earned income of the spouse with the lesser earnings. The maximum deduction is $3,000. This deduction may be taken on Form 1040 or Form 1040A.

EXEMPTIONS

You are allowed a $1,080 deduction for each exemption shown on your tax return (line 5f, Form 1040A; line 6, Form 1040EZ; line 6f, Form 1040). You are allowed an additional $1,080 exemption if you are age 65 or older by the last day of the tax year. However, you are considered 65 on the day before your 65th birthday. Therefore, you may claim the extra exemption for 1986 if your 65th birthday was on January 1, 1987. If your spouse is age 65 or older, your spouse is also allowed an additional $1,080 exemption.

In addition, you and your spouse may be able to claim a $1,080 exemption for blindness (refer to your tax instruction booklet for more details on this exemption). Age and blindness are determined on the last day of your tax year. This is December 31 for most taxpayers.

EXEMPTIONS FOR DEPENDENTS AND MULTIPLE SUPPORT AGREEMENTS

In general, a person may be claimed as a dependent of another taxpayer, provided five tests are met: (1) Support, (2) gross income, (3) member of household or relationship, (4) citizenship, and (5) separate return.

The support test is met if the person claiming the exemption contributed more than one-half of the individual's total support during the calendar year. But in some cases, two or more individuals provide support for an individual, and no one individual has contributed more than half the person's support. However, it still may be possible for one of the individuals to claim the $1,080 exemption if all of the following requirements for multiple support are met:

(1) Two or more persons—any one of whom could claim the person as a dependent if it were not for the support test—together contribute more than half of the dependent's support.

(2) Any one of those who individually contributes more than 10 percent of the mutual dependent's support, but only one of them may claim exemption for the dependent.

(3) Each of the others who individually contributes more than 10 percent must sign a written statement that he or she will not claim the dependency exemption for that year. The statement must be filed with the

income tax return of the person who claims the dependency exemption. Form 2120, "Multiple Support Declaration," is used for this purpose.

Note. You may include with your medical expenses those medical expenses you paid for a person for whom you meet the support test under a multiple support agreement, even if you may not claim the person as a dependent because he or she had gross income of $1,080 or more.

PRESIDENTIAL ELECTION CAMPAIGN FUND

You may voluntarily choose to have $1 of your taxes ($2 on a joint return) paid into this fund to help pay for Presidential election campaigns. Making this choice will not change the amount of tax you pay or the amount of refund you will receive.

CHECKLIST OF ITEMIZED DEDUCTIONS FOR SCHEDULE A (FORM 1040)

MEDICAL AND DENTAL EXPENSES

Medical and dental expenses are payments you make for the diagnosis, cure, relief, treatment, or prevention of disease. They also include payments for treatment affecting any part or function of the body. Expenses for transportation to get medical care are included in medical expenses. Payments for insurance that provides medical care for you, your spouse, and dependents are included in medical expenses. Unreimbursed expenses are deductible to the extent they are more than 5 percent of your adjusted gross income (line 33, Form 1040). Expenses may be deducted only in the year you paid them. If you charge medical expenses on your credit card, deduct the expenses in the year the charge is made regardless of when the bill is paid.

Drugs and medicines.—Amounts paid for medicines and drugs that required a prescription, and for insulin are deductible. These items are included in medical expenses, subject to the 5-percent rule.

Examples of other deductible medical and dental expenses:

—Doctors, surgeons, dentists, eye doctors, gynecologists, chiropractors, osteopaths, podiatrists, chiropodists, psychiatrists, psychologists, physical thera-

pists, acupuncturists, Christian Science practitioners, and psychoanalysts.

—Medical examinations, X-rays and laboratory services, surgery, and dental fees.

—Nursing help. However, if you pay someone to do both nursing and housework, you may deduct only the cost of the nursing help.

—Hospital care (including meals and lodging), clinic costs, lab fees.

—Medical treatment (including meals and lodging) at a center for drug addicts or alcoholics.

—Medical aids such as hearing aids (and batteries), false teeth, eyeglasses, contact lenses, braces, artificial limbs, crutches, wheelchairs, guide dogs and the cost of maintaining them if you are blind or deaf.

—Oxygen equipment and oxygen to relieve problems in breathing caused by a medical condition.

—Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received medical care, or you may claim 9 cents a mile. Add parking fees and tolls to the amount you claim under either method.

—Cosmetic surgery.

—Cost and repair of special telephone equipment for the deaf.

—Extra cost of a specially equipped television set and the cost of an adapter for a regular set that provides subtitles for a deaf person.

—Part of the cost of braille books and magazines that is more than the price for regular books and magazines.

—Capital expenditures for medical purposes, such as air-conditioning or elevators. If these expenses are for permanent improvements that increase the value of the property, you may include them as medical expenses only to the extent that they are more than the increase in the value of the property.

—Cost of a nursing home (including meals and lodging) if the principal reason for being in the nursing home is to get medical care.

—Medical care included in the "life-care fee" or "founders fee" of a retirement home that is paid monthly or as a lump sum under an agreement

with the home. The deductible part of the fee payment is the amount set apart for medical care.

—Cost of special equipment, such as a motorized wheelchair or autoette, special hand controls and other special equipment installed in a car specifically for the use of a physically handicapped person.

You may only deduct those medical expenses that are more than 5 percent of your adjusted gross income.

TAXES

- Real estate
- General sales
- State, local, or foreign income
- Personal property

If the optional State sales tax tables are used in arriving at your general sales tax deduction, generally the only additional sales taxes you may add to the table amount are those you paid to purchase the following items: Automobiles, trucks, motorcycles, airplanes, boats, mobile or motor homes, and material used to build a new home if the sales tax on the materials is imposed on you and the tax rate was the same as the general sales tax rate.

When using the sales tax tables, add to your adjusted gross income any nontaxable income such as the untaxed part of Social Security and railroad retirement and veterans benefits, worker's compensation, the untaxed part of long-term capital gains, dividends untaxed because of the exclusion, interest on municipal bonds, the untaxed part of unemployment compensation, untaxed disability income, the deduction for a married couple when both work, and public assistance payments.

INTEREST

- Personal loan
- Home mortgage
- Auto loan
- Loans on life insurance
- Installment purchases

Bank and other general purpose credit cards.—Deduct the finance charge added to your monthly statement if no part of the charge was for investigation fees, membership fees, loan fees, service charges, or similar charges.

Points.—When buying a residence, "points" may be interest paid in advance or charges for specific services. If the points are charges for specific services they are not deductible. You may deduct the amount you pay as

points (provided they are prepaid interest), in the year of payment—if the loan is used to buy or improve your principal residence and is secured by that residence. In addition, the payment of points must be an established business practice in the area where the loan was made, and the points must not exceed the number of points generally charged in your area.

If the residence you purchase is not your principal residence, you may not deduct the full amount of points in the year paid. Instead, the prepaid interest paid as points must be spread over the life of the mortgage, and is deductible over that period.

Points are not deductible if they represent charges for services rendered by the lending institution (e.g., VA or FHA points are not deductible as interest if paid for specific services). Also, points are not deductible if paid by the seller. These are selling expenses that reduce the amount realized.

Penalty for prepayment of a mortgage.—This is deductible as interest.

Revolving charge accounts.—These finance charges may be deducted if separately stated on your bill.

CONTRIBUTIONS

In general, contributions to qualified organizations, such as those organized and operated for religious, charitable, educational, scientific, or literary purposes may be deducted up to 50 percent of your adjusted gross income (line 33, Form 1040). Contributions "for the use of" any charitable organization or contributions to veterans organizations, fraternal societies, or nonprofit cemetery companies are limited to 30 percent of adjusted gross income (line 33, Form 1040). There is a limit of 30 percent of adjusted gross income for contributions of certain capital gain property. A 20-percent limit also applies to contributions of appreciated property to certain specific organizations. To deduct your contributions, you must make them in cash or other property before the close of your tax year. Other property (clothing, books, furniture, etc.) is deducted at the fair market value. You may deduct contributions you charge to your bank credit card in the year the charge is made.

Examples of other charitable contributions include:

—The cost and upkeep of uniforms that you must wear while performing donated services for a charitable organization.

—Out-of-pocket expenses you pay in giving services to a charitable organization. (Do not deduct the value of your time or services.)

—Payment of more than fair market value to an organization for goods, merchandise, services, banquets, shows, sporting events, etc.

—You may also deduct unreimbursed out-of-pocket expenses directly related to services you give to a charitable organization, such as gas and oil for your car. If you do not want to deduct actual expenses, you may use a standard rate of 12 cents a mile. In either case you may deduct parking fees and tolls.

You must keep records to prove your cash and noncash contributions. If your total noncash contributions are over $500, you must attach Form 8283, "Noncash Charitable Contributions," to your return.

Deduction for nonitemizers.—Even if you do not itemize deductions for 1986, you may deduct all of your qualifying charitable contributions on Form 1040, Form 1040A, or Form 1040EZ. (Form 1040EZ may not be used for cash contributions of $3,000 or more to any one organization or for noncash contributions.) If you made large charitable contributions in 1986, you should consider both methods of claiming the deduction to determine which one may be to your advantage. The deduction for nonitemizers will not be available after 1986.

CASUALTY OR THEFT LOSSES

You may deduct casualty losses, such as those that result from a tornado, flood, storm, fire, or auto accident (provided not caused by a willful act or willful negligence), or theft losses. The amount of your casualty loss deduction is generally the lesser of (1) the decrease in fair market value of the property as a result of the casualty or theft, or (2) your adjusted basis in the property before the casualty or theft. This amount must be reduced by any insurance or other reimbursement you receive. In the case of property held for personal use, each loss is reduced by the $100 limitation.

Your nonbusiness casualty or theft losses are deductible only to the extent that your total losses during the year exceed 10 percent of your adjusted gross income

after reducing each separate casualty or theft by $100. You must use Form 4684 to figure your casualty or theft loss. Report your casualty or theft loss on Schedule A (Form 1040).

MISCELLANEOUS DEDUCTIONS

In addition to the other itemized deductions, you may deduct certain miscellaneous expenses on Schedule A (Form 1040). A list of the most common expenses follows. For more information, see Publication 529, "Miscellaneous Deductions."

Educational expenses.—Amounts you paid for education that is: (1) Required by your employer, or by law or regulations, to maintain your salary, status, or job, or (2) for maintaining or improving skills you must have in your present work.

Business use of your home.—You may deduct expenses for the business use of part of your home only if you use that part exclusively and regularly. If this use is for your work as an employee, the use must also be for the convenience of your employer.

Employee expenses.—Examples of expenses you may deduct if you were not reimbursed for them are:

—Union dues.
—Safety equipment, small tools, and supplies you need for your job.
—Protective clothing, such as hard hats and safety shoes.
—Uniforms only if they are required as a condition of your employment and are not suitable for everyday use.
—Maintenance of uniforms that meet the conditions just described.
—Physical examinations required by your employer.
—Dues to professional societies.
—Fees to employment agencies and other related costs to get a new job in your present occupation.

Expenses of producing income.—You may deduct what you paid to produce or collect taxable income, or to manage or protect property held for producing income, or to determine, contest, pay, or claim a refund of any tax.

Examples of these expenses are:

—Safe deposit box rental.

—Custodial fees and service charges for a dividend reinvestment plan.
—Fees paid to investment counselors.
—Fees to collect taxable interest or dividends.
—Gambling losses, but not more than gambling winnings.

Fees you pay to have tax returns prepared are deductible in the year you pay them.

TAX CREDITS

Tax credits are used to reduce the amount of tax you owe. All credits must be taken on Form 1040, with the exception of the credit for child and dependent care expenses, the partial credit for contributions to candidates for public office, and the earned income credit which may be taken on Form 1040A. No credits may be taken on Form 1040EZ.

The most common credits are:

CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

A portion of certain payments made for child and dependent care may be claimed as a credit against tax.

If you maintained a household that included your dependent under age 15 *or a dependent or spouse incapable of self-care,* you may be allowed a credit for employment-related child and dependent care expenses. These expenses must have been paid during the tax year in order to enable you to work either full or part time.

The amount of the credit is 30 percent of your qualifying expenses if your adjusted gross income (line 33 of Form 1040 or line 15 of Form 1040A) is $10,000 or less. The 30-percent rate is reduced by 1 percent for each additional $2,000 of adjusted gross income (or part of $2,000) until the percentage is reduced to 20 percent for adjusted gross income above $28,000.

The maximum amount of child and dependent care expenses that may be used to compute the credit is $2,400 for one qualifying person and $4,800 for two or more qualifying persons.

See the Form 1040A instructions or, if you file Form 1040, see Form 2441 for more information, including a special rule for divorced or separated taxpayers.

CREDIT FOR THE ELDERLY OR FOR THE PERMANENTLY AND TOTALLY DISABLED

You may be able to claim this credit and reduce taxes if you are: (1) Age 65 or over, or (2) under age 65 and retired with a permanent and total disability for which you receive taxable disability benefits.

For more information, see the instructions for Schedule R (Form 1040).

RESIDENTIAL ENERGY CREDIT

Beginning in 1986, you cannot claim the residential energy credit for any energy saving items or renewable energy source property installed after 1985. However, even though you cannot claim the credit for items or property installed after 1985, you may carry forward to 1986 an unused credit from a tax year beginning before January 1, 1986, that you did not use because it was more than your tax for that year. If you cannot use all of the credit in 1986, you can carry forward the unused part to 1987. You cannot use any of the credit after 1987.

For more information about the residential energy credit, see Chapter 35, Publication 17.

CREDIT FOR POLITICAL CONTRIBUTIONS

You may take a partial credit (line 43 of Form 1040 or line 21b of Form 1040A) for campaign contributions to candidates for Federal, State, or local office, to newsletter funds, and to political committees of candidates and elected public officials. The amount of the tax credit is limited to one-half of the political contribution, with a $50 ceiling ($100 for couples filing a joint return). You must have a written receipt to prove your contribution. Canceled checks will, in most cases, meet the requirements for a written receipt.

EARNED INCOME CREDIT

If you have a child who shares your principal residence in the United States for more than half the year (for the entire year if the child is a foster child or if your filing status is qualifying widow or widower with dependent child), you may be entitled to a special payment or credit of up to $550. This is called the earned income credit. It may come as a refund check or be applied against any taxes you owe. Generally, if your

earned income and adjusted gross income were less than $11,000, you may be able to claim the credit.

Earned income means wages, salaries, tips, strike benefits, other employee compensation, disability pensions, and net earnings from self-employment. A married couple must file a joint return to be eligible for the credit. However, certain married persons living apart with a dependent child may also be eligible to claim the credit.

For more information, see the instructions for Form 1040 or Form 1040A.

SALE OF YOUR PERSONAL RESIDENCE

You may exclude or defer from your gross income some or all of your gain from the sale or exchange of your principal residence, if you meet certain requirements at the time of the sale or exchange.

If you were age 55 or older on the date of sale or exchange you may elect to exclude from gross income up to $125,000 of gain provided you owned and lived in your principal home for at least 3 of the 5 years ending on the date of sale or exchange, and you or your spouse have never excluded gain on the sale or exchange of a home after July 26, 1978.

Also, if you meet certain requirements, you may defer from gross income part or all of the gain from the sale or exchange of your personal residence if, within 24 months before or 24 months after the sale or exchange, you buy or build and occupy another residence.

Form 2119, "Sale or Exchange of Principal Residence," is used to report the sale of your principal residence whether or not you bought another one. Taxable gains from the sale of your residence are then reported on Schedule D. Losses from such a sale are not deductible.

See Publication 523, "Tax Information on Selling Your Home."

SAVINGS INCENTIVES

Dividend exclusion.—For 1986, you may exclude up to $100 on a separate return and up to $200 on a joint return of your qualifying dividend income.

Exclusion of stock dividends from public utilities.—Shareholders in a domestic public utility corporation

who chose to receive their dividends in the form of common stock must include in their gross income the total value of such stock dividends distributed after 1985.

Individual retirement arrangements.—An individual retirement arrangement (IRA) is a savings plan that lets you set aside money for your retirement. You may deduct contributions you make to an IRA and earnings on your IRA are not taxed until they are distributed to you. You may deduct the amount you actually contributed up to the lesser of your compensation that you must include in income, or $2,000. You may also be eligible to make contributions to an IRA for your nonworking spouse. See Publication 590, "Individual Retirement Arrangements (IRA's)," for more information.

Keogh plans.—You must have earnings from self-employment to claim a deduction for payments to a Keogh (H.R. 10) plan. For information on Keogh plans, see Publication 560, "Self-Employed Retirement Plans."

1987 INCOME TAX ITEMS OF INTEREST TO OLDER AMERICANS

The Tax Reform Act of 1986 made many changes to the tax law which affect the 1987 tax year. Some of these changes are as follows:

1. *Tax rates.*—A new rate structure providing for 5 brackets replaces the present structure of up to 15 brackets. The 5 rates are 11 percent, 15 percent, 28 percent, 35 percent, and 38.5 percent.

2. *Exemptions.*—The personal exemption amount is $1,900 for 1987. The extra personal exemptions allowed for taxpayers who are age 65 or older or blind has been eliminated.

3. *Standard deduction.*—The zero bracket amount has been replaced by a standard deduction. The standard deduction consists of a basic standard deduction and an additional standard deduction. For 1987, the basic standard deduction is $3,760 for Married Filing Jointly and Qualifying Widows and Widowers, $2,540 for Single and Head of Household, and $1,880 for Married Filing Separately. However, if you are age 65 or older or blind, your basic standard deduction for 1987 is $5,000 for Married Filing Jointly and Qualifying Widows and Widowers,

$3,000 for Single, $4,400 for Head of Household, and $2,500 for Married Filing Separately. An additional standard deduction of $600 is allowed for an individual who is age 65 or older or blind and who is married (whether filing jointly or separately) or who files as a surviving spouse. The additional standard deduction is $1,200 if the individual is both age 65 or older and blind. An additional standard deduction of $750 is allowed for an unmarried individual or one filing as head of household who is age 65 or older or blind. If the individual is both age 65 or older and blind, the additional standard deduction is $1,500.

4. *Filing requirements.*—The amount of gross income you may receive before you are required to file a return has increased and is as follows:

Filing status	*Gross income*
Single:	
Under age 65 and not blind	$4,440
Under age 65 and blind	$4,900
Age 65 or older	$5,650
Married Filing Joint Return:	
Both spouses under age 65 and neither blind	$7,560
Both spouses under age 65 and one or both blind	$8,800
One spouse age 65 or older	$9,400
Both spouses age 65 or older	$10,000
Married Filing Separate Return: All—whether age 65 or older or blind	$1,900
Head of Household:	
Under age 65 and not blind	$4,440
Under age 65 and blind	$6,300
Age 65 and older	$7,050
Qualifying Widow(er):	
Under age 65 and not blind	$5,660
Under age 65 and blind	$6,900
Age 65 or older	$7,500

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